
FISCAL TOPICS

Fiscal Services Division

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Tax Credit: Geothermal Heat Pump Tax Credit

The Geothermal Heat Pump Tax Credit was available for qualified installations on residential property located in Iowa. The State credit equaled 20.0% of the federal Residential Energy Efficient Property Tax Credit. The federal credit (30.0% of installation costs) expired for several years and was reinstated retroactively during 2018. The federal credit is now available through 2020. While Iowa coupled its tax legislation with the federal tax changes effective January 1, 2019, Iowa also repealed the State credit effective the same date. When both the federal and State credits were available for installations, tax credits covered 36.0% of installation costs.

The total amount of tax credits available in a year for a single taxpayer and for all taxpayers combined was not limited. Oversight is a function of Department of Revenue tax return auditing. The tax credit is not refundable or transferable, but unused credits may be carried forward.

Tax Credit Background

- Enabling Legislation: 2012 Iowa Acts, ch. [1121](#) (Tax Credits and Exemptions Act)
- Code Citations: Iowa Code section [422.111](#)
- Administrative State Agency: None
- Sunset Date: Federal and State action effectively ended the State credit after 2016. The Iowa credit is repealed effective January 1, 2019.
- Transferable: No
- Refundable: No
- Carryforward: Unused tax credits may be carried forward for up to 10 years.
- Legislative Tax Expenditure Committee Review Years: Review of this credit is not a duty of the Committee.

Legislative History

The Geothermal Heat Pump Tax Credit was originally enacted in 2012. The State tax credit was based on a percentage of the federal tax credit available for geothermal installations. After reaching a 2016 sunset date, the federal tax credit has been reauthorized through 2020. Since the State tax credit was a percentage of the federal credit, the State credit was not available for installations made after December 31, 2016. With repeal of the State credit January 1, 2019, the State credit is no longer available.

The 2016 Legislature enacted a second geothermal tax credit in [HF 2468](#) (Department of Revenue Miscellaneous Changes Act). The newer State geothermal credit is not dependent on a federal credit and is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit became available beginning calendar year 2017. The new credit is also repealed January 1, 2019.

Tax Credit Review, Usage, and Future Liability

The Geothermal Heat Pump Tax Credit is not included on the list of tax credits to be reviewed by the Tax Expenditure Committee, so the Department of Revenue has not completed a thorough review of the tax credit usage and benefits. Based on factors used for the fiscal estimate when the tax credit was created, residential geothermal installations earned an average of \$1,050 in State tax credits. From FY 2013 through FY 2018, an estimated \$10.5 million in tax credits was redeemed. While this translates to about 10,000 residential geothermal installations, the actual number of installations is higher because as a nonrefundable tax credit, a portion of the tax redemptions for existing installations will occur in future tax years.

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report/Contingent-Liabilities

Department of Revenue Tax Credits Users' Manual:

[tax.iowa.gov/sites/sites/files/idr/Tax Credits Users Manual 2018.pdf](http://tax.iowa.gov/sites/sites/files/idr/Tax_Credits_Users_Manual_2018.pdf)

Legislative Services Agency Income Tax Guide: www.legis.iowa.gov/docs/publications/LG/711304.pdf

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Geothermal Heat Pump Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2005	\$ 0	FY 2014	\$ 1,851,468
FY 2006	0	FY 2015	2,205,041
FY 2007	0	FY 2016	2,035,832
FY 2008	0	FY 2017	2,325,998
FY 2009	0	FY 2018	502,864
FY 2010	0	FY 2019*	105,396
FY 2011	0	FY 2020*	86,826
FY 2012	0	FY 2021*	86,179
FY 2013	1,555,338	FY 2022*	1,809
		FY 2023*	86,179

Geothermal Heat Pump Tax Credit Redemptions

*Projected

